Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – February 1, 2023

Practice is the Road to Perfection.

We recently had the opportunity to watch The Phantom of the Open, a heartwarming true story about the world's worst golfer. Maurice Flitcroft, the hero of our tale, often utters, "Practice is the road to perfection," despite the fact that he practices little and remains leagues away from perfection on the course. Such blatant hypocrisy matters not since dear Maurice is at once quirky, charming, and tenacious. It is worth a watch.

The Federal Reserve, however, has practiced of late. It's applied tighter monetary policy for about a year now. We hope they prove more adroit than poor Maurice. And though they were late to the party, their efforts seem to be bearing fruit. Headline inflation has steadily declined from the peak. It remains too high, yet the trend is much improved. But underlying goods with so-called "sticky" prices continue to increase which is why we think they continue to raise rates, albeit at a slower pace than last year.

Speaking of rates, when were green and quite wide-eyed in this business, old sages used to say things like, "It takes 12 months for interest rate changes to be felt in the economy." Then, as technology proliferated, the saying moved down to 6 – 12 months. And now, with social media and the networked integration of financial activities, we are of the opinion that it might only be 90 days. If our suspicion is correct, the latter half of 2023 may already begin to see a rebound in the activity we saw trail off in 2022.

But let's not get ahead of ourselves. 4Q 2022 earnings are about 2/3 reported. They are running 4-5% lower than the year ago period despite higher revenues. This means that the inflation consumers felt immediately last year was finally hitting companies last quarter. And just as the trend for consumers lasted more than just a quarter, we think it will last equally as long for corporations. Therefore, we expect 2023 earnings per share to be lower than 2022 with the nadir sometime in the second or third quarters.

We are more positive on stock and bond markets in 2023 even though we grant that last year's lows might be retested in the springtime as earnings estimates come down. Market participants will try to ascertain whether the end of inflation means the dawn of recession. We're agnostic on this. To those with whom we've met in the past two months, we've suggested a recession is here. It simply looks different than those of the past. And with China finally emerging from its lockdowns, and bank balance sheets strong, any recession we are in or soon enter ought to be a run-of-the-mill variety.

1246 County Road Q, McClure, OH 43534 P: 419-832-1111
www.stirlingbridgewealthpartners.com F: 419-832-1211

Thus, we have slowly begun to increase bond duration for clients. We are steadily putting idle cash back to work across asset classes with the anticipation that a year hence, the business world is stronger.

Before wrapping up, we'd like to spend a moment on the SECURE 2.0 Act recently passed. It was a broad bill that tweaked all sorts of retirement saving aspects. We'll not touch on them all. Instead, we'll highlight those facets that are most likely to impact our clients.

Starting this year, the RMD age for IRA holders increases to 73. Then it will slowly increase to 75 by 2033. Unfortunately, if you started taking an RMD in prior years, you are still on the hook going forward.

The additional "catch-up" contribution to IRAs for folks over 50 will no longer be locked in at $1,000 annually. Starting in 2024, the catch-up will increase with inflation. On a related note, starting in 2025, workers between the ages of 60 and 63 will be allowed to shove an even larger chunk into their 401(k) plans via an amped catch-up. However, if your wages are over $145,000, the catch-up will have to go into a Roth.

And speaking of Roths, SECURE 2.0 allows folks who have had a 529 plan for 15 years or more and decide they aren't going to use it for education, are now permitted to roll the plan into a Roth IRA for the named beneficiary with a $35,000 lifetime limit. The Act even created Roth versions of the popular SEP and SIMPLE IRAs, something that has been sorely lacking for many years.

All-in-all, SECURE 2.0 is a decent piece of legislation, with wide-ranging tentacles. It generally provides more savings opportunities for most folks. Though, as always, the devil will be in the details as the regulations are written to comply with the new law. And as we wade more deeply into 2023, we hope this particular devil is as benign as the peculiar Phantom of the Open – and a little more practiced.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
Jason Born, CFA
President

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